

# ***Economic Impact of the Hangout Festival on the Alabama Gulf Coast Economy***

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***Prepared for: The City of Gulf Shores, Alabama***

***Prepared by:  
M. Keivan Deravi, Ph.D.  
Professor of Economics***

***Barbara Buchanan  
Research Specialist***

***Auburn University at Montgomery  
August 30, 2013***

This report attempts to estimate the economic impact of the Hangout Music Festival on the Alabama Gulf Coast economy. The variables of interest, to be analyzed, are employment, earnings, and final demand (output).

At the very best, this economic report is an estimate, which is based on the sound theoretical foundation of the region's economy and the most updated socioeconomic, demographic, retail, and general business climate information available.

This study estimates possible changes to the regional economy predicated on an entertainment event. The premise of this analysis is that there will be no major event to change the short or long-term economic landscape of the region, and there will be no other competing investment, in the area, in the future. In other words, we assume everything else will remain constant as we run this exercise.

Every attempt has been made to use the most recent information. The author, however, does not assume responsibility for any changes or revisions that may be made to the source data.

M. Keivan Deravi, Ph.D.  
Professor of Economics  
Auburn University at Montgomery  
[mderavi@aum.edu](mailto:mderavi@aum.edu)  
(334)-244-3422

Barbara (Buffy) Buchanan  
Research Specialist

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## Executive Summary

### Purpose

- The purpose of this report is to conduct the economic impact of the Hangout Music Festival (Festival) on the Alabama Gulf Coast economy.
- The Festival is a three-day, large-scale music event that takes place on the beach in multiple stages.
- The Festival has succeeded in bringing some of the world's greatest musicians and bands to the city of Gulf Shores and attracts approximately 30,000 attendees to the area.
- This influx of visitors, without doubt, will generate a healthy dose of economic benefit throughout the region.

### Introduction

- The Hangout Music Festival has grown from a small upstart concert into a nationally renowned music event with a far-reaching domestic and global audience.
- It has been reported that the media coverage, of the 2013 Festival, reached an estimated audience of 564 million viewers worldwide.
- Social media outlets such as Twitter and Facebook, with the live-stream of the Festival, have exploded the promotion and advertising reach of the event beyond its initial target.
- It is far too early to attempt to estimate the tourism yield from these intangible benefits.
- In this report, we solely concentrated on the tangible economic benefits of the Festival. More specifically, this report will concentrate on the expenditures by the organizers, talents performing, and those non-local attendees on the region's economy.
- For the purpose of this report, we concentrated on the statistics for the 2013 Festival.
- The information, to conduct this report, was provided by organizers of the Hangout Music Festival specifically by Mr. Shaul Zislin, interviews with condominium rental officials, and the finance department for the City of Gulf Shores.

## The Festival

- In 2011 and 2012, approximately 35,000 people attended the three-day festival.
- In 2013, the attendance was estimated at 27,000.
- In our opinion, the drop in attendance in 2013 was partially due to an aggressive increase in lodging rates and other price increases associated with the Festival weekend.
- Historically, the tourism season started with Memorial-Day weekend and ended with the first week in August.
- The Festival effectively pushed the start of the season to one-week earlier than previous years.
- 80 percent of all attendees are from outside the state of Alabama.
- They represent markets such as, Atlanta, Chicago, and Dallas.
- These have been the hard-to-reach markets in the past.
- Intercept surveys show that a very large cohort of the Festival attendees represent a higher middle-income to higher income class.
- Close to 90 percent of all attendees are identified to be non-local, who required overnight accommodations in the area.

## The Economic Impact

### Data Preparation

- Every detail of the Festival expenditures was analyzed and appropriate leakage factors were applied to each category. The purpose of this exercise was to ensure we only captured the portion of the total expenditures spent in the local economy.
- It is our estimate that the total expenditures on the Festival were approximately \$13 million in 2013. The local share of spending was estimated to be \$9 million.
- Next, data on the condominium occupancy rate and the room rate were collected.

- Using the total inventory of condominiums in the area, the percentage of the non-local attendees, the market room rates, and the average duration of stay, we estimated the total lodging expenditures during the Festival weekend.
- Based on our previous research on tourism in the area, we calculated the ratio of lodging expenditures to other expenditures and applied that ratio to our estimates of lodging spending. This provided us with the expenditures by the Festival attendees on food and other services.

### **The Three Sectors**

- Because of the nature of the Festival, we divided the overall direct impacts into three sectors.
- The first sector is the entertainment sector. This captures all the expenditures, by all of the Festival attendees, and the organizers as they occur on the grounds of the Festival during the three-day event.
- The second sector is the accommodations sector. This category of expenditures captures lodging components, which is the integral part of the event.
- The last sector is spending by the attendees outside of the event and in addition to accommodations, on the local economy. This includes purchases of souvenirs and food by the attendees', event participants, and vendors.

### **Direct Impact**

- Alabama's Hangout Music Festival weekend seems to be an \$18 million event.
- The Festival is estimated to have total direct employment of 412 full time equivalent jobs, direct payroll of \$6 million, and non-payroll expenditure of \$12 million, respectively.

### **Total Economic Impact**

- The total economic impact of the event includes the estimated impacts from the entertainment, the accommodations, and food and other service industries attributable to the Festival.
- It is our estimate that the total economic impact, of the Hangout Music Festival is \$31 million of purchases of goods and services and 518 full time equivalent numbers of jobs.

## Purpose

The purpose of this report is to conduct the economic impact of the Hangout Music Festival (Festival) on the Alabama Gulf Coast economy. The Festival is a three-day, large-scale music event that takes place on the beach in multiple stages. The Festival has succeeded in bringing some of the world's greatest musicians and bands to the city of Gulf Shores. The Festival starts on Friday of the third week of May and concludes on the following Sunday. It has historically attracted approximately 30,000 attendees to the area. This influx of visitors, without doubt, will generate a healthy dose of economic benefit throughout the region.

The Hangout Music Festival has grown from a small upstart concert into a nationally renowned music event with a far-reaching domestic and global audience. It has been reported that the media coverage, of the 2013 Festival, reached an estimated audience of 564 million viewers worldwide. This alone should have produced an enormous, nontangible economic benefit (or positive externalities) for the area. Social media outlets such as Twitter and Facebook, with the live-stream of the Festival, have expanded the promotion and advertising reach of the event beyond its initial target. It is far too early for us to attempt to estimate the tourism yield from those intangible benefits.

In this report, we solely concentrated on the tangible economic benefits of the Festival. More specifically, this report will concentrate on the expenditures by the organizers, talents performing, and those non-local attendees on the region's economy. It is important for us to distinguish between the local and non-local attendees. Spending by non-local attendees (visitors) will produce a net positive addition to the region's economy. On the other hand, spending by local attendees will have a neutralized effect.

For the purpose of this report, we concentrated on the statistics for the 2013 Festival. The information, to conduct this report, was provided by organizers of the Hangout Music Festival specifically by Mr. Shaul Zislin, personal interviews with condominium rental officials, and the finance department for the City of Gulf Shores.

## Introduction

The Hangout Music Festival was founded in May of 2010. The first year of the Festival was not as successful due to the negative publicity of the Deep-Water Horizon oil spill. In 2011 and 2012, approximately 35,000 people attended the three-day festival. In 2013, the attendance was estimated at 27,000. In our opinion, the drop in attendance in 2013 was partially due to an aggressive increase in lodging rates and other price increases during the Festival weekend.

Historically, the tourism season in the Gulf Coast area started with Memorial-Day weekend and ended with the first week in August. The Festival effectively pushed the start of the season to one-week earlier than previous years.

The timing of the Festival has had two significant consequences. First, it created a substantial economic event during the dead season between Spring Break and the Memorial-Day holiday. The data shows that prior to the Festival there was very little tourism activity during that time. The second consequence of the Festival was the accommodation industry accelerated their rate increase from “spring rate” to “late spring rate”. The “late spring rate” was in effect the same as the “summer rate” pushed two weeks earlier in the season. Additionally, the tourism industry accelerated its hiring in anticipation of an early influx of visitors.

According to the information provide us about 80 percent of all attendees are from outside the state of Alabama. They represent markets such as, Atlanta, Chicago, and Dallas. These have been the hard-to-reach markets in the past. Intercept surveys show that a very large cohort of the Festival attendees represents a higher middle-income to higher income class. Close to 90 percent of all attendees are identified to be non-local, who required overnight accommodations in the area.

For the local tourism industry, the Hangout Festival has turned into a marquee event, which infuses a large amount of money into the beach economy. Our research shows that the occupancy rate, for the weekend of the Music Festival, reached near full capacity (90 %) versus 30 percent reported for the pre-festival years.

The Festival has grown so much that organizing it requires citywide planning and careful placing of the city and county assets. For example, Gulf Shores Fire & Rescue Battalion coordinates roughly 85-member medical response crew that includes two doctors and four nurses. Medical teams treat 400-500 people during the course of the festival mostly for heat related cases. To maintain order during the festival weekend, well over 100 local law-enforcement officers are assisted by the Baldwin County and Mobile County Sheriff's department as well as Alabama State Troopers.

While the event taxes the regions resources in general and the Gulf Shores assets in particular, the City of Gulf Shores is reimbursed by the Festival organizers for the resources it uses. It is reported during the Festival 750 individuals are employed to



assist with some function of the event. The City loans 106 of its employees on an over-time basis to the Festival organizers.

## Economic Impact of the Hangout Music Festival

### Methodology

The methodology employed to estimate the impact of the Hangout Music Festival (Festival) on Alabama's Gulf Coast economy is derived from regional economic models. The basic premise is that the Festival business operation stimulates various sectors in the local economy. These activities, by the Festival, shall lead to additional demand for goods and services in the region. In turn, the affected sectors increase their demand from their suppliers.

Classifying the impacts into three broad categories facilitates an understanding of how an initial change, in the demand for goods and services, in the economy, will lead to additional impacts.

The three categories of impacts are:

**Direct:** The direct impacts of the Festival are the additional demand and expenditures in the local economy that are directly attributable to the regular and day-to-day operation of the Festival.

**Indirect:** To the extent that direct purchases of goods and services, by the Festival, reverberate throughout the local economy, and result in further increases in business transactions, there will be indirect impacts. An indirect impact, for example, results when a business needs additional resources to service the increased demand directly attributable to the operation of the Festival. The suppliers of these items find their sales increasing and, in turn, they will need more input to meet the new demand.

This process continues, yielding a multiplier effect on the output of the local economy. Whenever the extra demands are met by industries outside the local economy, there are **leakages** from the flow of products and income from the local economy. **The greater the number of leakages, the lower the indirect impacts and the lower the multiplier.** On the other hand, the more diversified the local economy, the higher the value of multipliers.

**Induced:** Additional indirect effects are induced by the change in income in the economy. For example, when a business hires an additional worker to meet the demand caused by the Festival or its supplier's network, the worker's spending further enhances economic activity in the region.

Determining multipliers for the project under consideration is a fundamental step toward conducting an economic impact analysis. The term multiplier refers to the ratio of all direct, indirect, and induced effects to the direct effects. Once the total direct impact of the Festival's operation —specifically, earnings, employment, and output directly attributable to the Festival —are estimated; they are then linked to other relevant criteria.

For estimating the economic impact of this project, economic multiplier information was gathered from:

The U.S. Department of Labor  
The U.S. Census Bureau  
The U.S. Bureau of Economic Analysis

### **Notes about Impact (Analysis) Model**

The following observations should be noted about the model that has been used for conducting the analysis in this study.

- The Input-Output model used for this study deals with readily available, quantifiable impacts such as dollars of spending or employment. The model does not consider social costs or benefits of economic activities.
- The model used is a static process that does not take into effect changes over time in a dynamic economy. This suggests that the relationships between economic sectors are fixed, as of the date of the model's underlying database, and does not account for adjustments that may take place over time.
- The model assumes that the relationship between changes in demand for products and services and the resulting changes in income and employment are linear. That is, it does not take into account the changes in productivity over time.
- The model assumes that a response to any incremental changes in demand for goods and services is at the average rather than the marginal rate.
- Finally, the model does not take into consideration the additional capital expenditures required to support indirect and induced effects on the local economy.

### **Economic Impact Estimate**

Estimates of direct economic impact (or the primary data) for the Festival on the Gulf Coast economy is highlighted in Table 1. Direct impact data are the net additions to key regional economic variables (employment, earnings, and value added of services produced) that are solely and directly attributable to the operation of the Festival in Alabama.

As stated earlier, data for the calculating the direct economic impact was collected from the Hangout Music Festival organizers, interviews with the condominium rental agencies officials, and the finance department of the City of Gulf Shores,

Alabama. Detailed information that was provided by the Festival organizers are considered confidential. I am not at liberty to disclose the detailed information. However, I have been authorized to use the total expenditures incurred by the organizers of the Festival.

Every detail of the expenditures was analyzed and appropriate leakage factors were applied to each category. The purpose of this exercise was to ensure we only captured the portion of the total expenditures spent in the local economy. It is our estimate that the total expenditures on the Festival were approximately \$13 million in 2013. The local spending was estimated to be \$9 million.

Next, we collected data on the condominium occupancy rate and the room rate. Using the total inventory of condominiums in the area, the percentage of the non-local attendees, the market room rates, and the average duration of stay, we were able to estimate the total lodging expenditures during the Festival weekend.

Based on our previous research on tourism in the area, we calculated the ratio of lodging expenditures to other expenditures and applied that ratio to our estimates of lodging spending. This provided us with the expenditures by the Festival attendees on food and other services.

Because of the nature of the Festival, we divided the overall direct impacts into three sectors. The first is the entertainment sector. This captures all the expenditures, by all of the Festival attendees, and the organizers as they occur on the grounds of the Festival during the preparation of and the three-day event. The second sector is the accommodations sector. This category of expenditures captures lodging components, which is the integral part of the event. The last sector is spending by the attendees outside of the event and in addition to accommodations, on the local economy. This includes purchases of souvenirs and food by the attendees', event participants, and vendors.

Our estimates for the first spending on the entertainment, accommodations, and food and other services are presented in Table 1. Along with direct spending, we also report direct earning (payroll), and direct employment attributable to the Hangout Music Festival.

**Table 1: Direct Impact, Hangout Music Festival**

	Direct Spending	Direct Earning	Direct Employment
Entertainment	\$8,974,286	\$3,344,077	246
Accommodation	\$5,692,252	\$1,582,300	81
Food and Other Services	\$3,794,834	\$1,184,805	85
Total	\$18,461,372	\$6,111,182	412

Alabama's Hangout Music Festival weekend seems to be an \$18 million event. The Festival is estimated to have total direct employment of 412 full time equivalent jobs, direct payroll of \$6 million, and non-payroll expenditure of \$12 million, respectively.

Next, the direct impact estimates, as reported in Table 1, were subjected to multiplier analysis and the Festival's total economic (direct, indirect, and induced) impact was calculated. The results are presented in tables 2 and 9.

We begin our calculations of the total economic impact using the Festival's payroll and non-payroll spending as it applied to its entertainment industry recreation (Tables 2 and 3).

Payroll spending is the direct payment for services to employees and non-payroll spending is direct payment to suppliers and vendors. These two categories of spending, once incurred, will trigger additional purchases and production of goods and services throughout the economy.

In 2013, the Festival injected a total of \$3.3 million of direct wages and salaries into the entertainment sector of the regional economy. This income (earned income by the Festival employees and subcontractors) was spent on the purchase of goods and services (output) throughout the region. The total output impact attributed to this classification of spending is estimated as follows:

- ✓ First, withholdings and spending leakages were subtracted from the gross payroll.
- ✓ This provided us with "contributory direct payroll". This figure is \$2.4 million.
- ✓ Next, the average sales multiplier for payroll spending was estimated to be 3.251.
- ✓ Applying this multiplier to the contributory direct payroll yielded an output impact contribution from payroll of \$7.9 million.

Next, we concentrated on the Festival's output contribution from its non-payroll expenditures.

- ✓ The Festival's non-payroll expenditures in 2011 were estimated at \$5.6 million.
- ✓ We applied a leakage factor of 20 percent to the above estimate. This resulted in a total in-state non-payroll expenditure of \$14.5 million.
- ✓ Finally, we applied a multiplier of 1.5141 to this class of spending. This resulted in an estimated output impact from non-payroll expenditure of \$6.8 million.

The total output impact of the entertainment sector of the Festival on the State's economy in 2013 is the sum of these two subcomponents. As presented in Table 2,

our calculation indicates that the entertainment impact of the Festival's on the regions' economy was \$14.7 million.

**Table 2: Economic Impact of the Hangout Music Festival, Entertainment, and Recreation Component**

Gross payroll	\$3,344,077
Withholding	\$802,579
Leakages	\$124,588
Contributory Payroll	\$2,416,911
Weighted Average Sales Multiplier	3.251
<b>Total Economic Contribution from W &amp; S</b>	<b>\$7,856,494</b>
Industry Value Put in Place	\$8,974,286
Industry Payroll	\$3,344,077
<b>Non-Payroll Expenditure</b>	<b>\$5,630,209</b>
Leakage	\$1,126,042
Total In State Non-Payroll Expenditures	\$4,504,167
Multiplier	1.5141
<b>Total Economic Contribution (non-payroll expenditures)</b>	<b>\$6,819,760</b>
<b>Total Economic Contribution</b>	<b>\$14,676,254</b>

Next, we concentrated on the employment impact. Similar to the output case, we computed the employment impact using the direct employment. The process and the results are presented in Table 3. As reported, it is our estimate that the Festival's entertainment sector impact was responsible for an average of 298 full time equivalent (FTE) jobs for the Coastal Area.

**Table 3: Employment Impact, Entertainment, and Recreation**

Direct Job	246
Direct Employment Multiplier	1.2118
<b>Employment Impact</b>	<b>298</b>

Next, we followed the exact procedure to estimate the impact on the accommodation, food and other retail services of the Festival. The results are reported in Tables 4 through 7.

**Table 4: Economic impact of the Hangout Festival, Accommodation**

Gross payroll	\$1,582,300
Withholding	\$379,752
Leakages	\$58,951
Contributory Payroll	\$1,143,597
Weighted Average Sales Multiplier	\$4.427
<b>Total Economic Contribution from W &amp;S</b>	<b>\$5,062,901</b>
Industry Value Put in Place	\$5,692,252
Industry Payroll	\$1,582,300
<b>Non-Payroll Expenditure</b>	<b>\$4,109,952</b>
Leakage	\$821,990
Total In State Non-Payroll Expenditures	\$3,287,961
Multiplier	1.5383
<b>Total Economic Contribution (non-payroll expenditures)</b>	<b>\$5,057,871</b>
<b>Total Economic Contribution</b>	<b>\$10,120,772</b>

**Table 5: Employment Impact, Accommodations**

Direct Job	81
Direct Employment Multiplier	1.4394
<b>Employment Impact</b>	<b>117</b>

**Table 6: Economic Impact of the Hangout Music Festival, Food, and other Services**

Gross payroll	\$1,184,805
Withholding	\$284,353
Leakages	\$44,141
Contributory Payroll	\$856,311
Weighted Average Sales Multiplier	\$3.874
<b>Total Economic Contribution from W &amp;S</b>	<b>\$3,317,561</b>
Industry Value Put in Place	\$3,794,834
Industry Payroll	\$1,184,805
<b>Non-Payroll Expenditure</b>	<b>\$2,610,029</b>
Leakage	\$522,006
Total In State Non-Payroll Expenditures	\$2,088,023
Multiplier	1.512
<b>Total Economic Contribution (non-payroll expenditures)</b>	<b>\$3,157,091</b>
<b>Total Economic Contribution</b>	<b>\$6,474,652</b>

**Table 7: Employment Impact, Food, and other Services**

Direct Job	85
Direct Employment Multiplier	1.2118
<b>Employment Impact</b>	<b>103</b>

In Table 8, we report the total economic impact of the event, which includes the estimated impacts from the entertainment, the accommodations, and food and other service industries attributable to the Festival. It is our estimate that the total economic impact, of the Hangout Music Festival is \$31 million of purchases of goods and services and 518 full time equivalent numbers of jobs.

**Table 8: Total Economic Impact of the Hangout Music Festival**

Gross payroll	\$6,111,182
<b>Total Economic Contribution from W &amp;S</b>	<b>\$16,236,956</b>
Industry Value Put in Place	\$18,461,372
Industry Payroll	\$6,111,182
<b>Non-Payroll Expenditure</b>	<b>\$12,350,190</b>
<b>Total Economic Contribution (non-payroll expenditures)</b>	<b>\$15,034,722</b>
<b>Total Economic Contribution</b>	<b>\$31,271,678</b>

**Table 9: Employment Impact of the Hangout Music Festival**

Direct Job	412
<b>Employment Impact</b>	<b>518</b>